

HOLLAND & HART LLP



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September 27, 2011

VIA HAND DELIVERY

Jami Bailey, Director
Energy, Minerals and Natural Resources
Department
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Case ¹⁴⁷³⁶ ~~14719~~

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Re: Mewbourne Oil Company's two applications for (1) a non-standard oil spacing and proration unit, unorthodox well location and compulsory pooling, Eddy County, New Mexico, and (2) a non-standard oil spacing and proration unit and compulsory pooling, Eddy County, New Mexico; and its amended application for Case No. 14736.

Dear Ms. Bailey,

Enclosed is Mewbourne Oil Company's applications in the above-referenced matters and copies of a legal advertisement for each. Mewbourne requests that you set the matters for hearing before an Examiner of the Oil Conservation Division on October 27, 2011.

Sincerely,

Adam G. Rankin

AGR

cc: Steve Smith

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION
OF MEWBOURNE OIL COMPANY FOR A NON-
STANDARD OIL SPACING AND PRORATION
UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

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2011 SEP 27 P 11:10
CASE NO. 14736

AMENDED APPLICATION

Mewbourne Oil Company applies for an order (i) approving a non-standard oil spacing and proration unit in the Bone Spring formation, comprised of the N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 11, Township 18 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, and (ii) pooling all mineral interests from the base of the Second Bone Spring Carbonate to the base of the Bone Spring formation underlying the non-standard unit, and in support thereof, states:

1. Applicant is an interest owner in the N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 11, and has the right to drill a well thereon.
2. Applicant proposes to drill its Tamano 11 Fed. Com. Well No. 1-H to a depth sufficient to test the Second Bone Spring Sand formation immediately below the base of the Second Bone Spring Carbonate, as found at a depth of approximately 8,150 feet subsurface as found on logs for the Hudson Federal Well No. 1, located 660 feet from the north line and 1,980 feet from the east line of Section 11. Applicant seeks to dedicate the N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 11 to the proposed well to form a non-standard 160-acre oil spacing and proration unit (the "project area") for all pools or formations developed on 40-acre spacing from the base of the Second Bone Spring Carbonate to the base of the Bone Spring formation.

3. The well is proposed to be a horizontal well with a surface location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$, 400 feet from the north line and 330 feet from the east line of Section 11, and a bottom-hole location in the NW $\frac{1}{4}$ NW $\frac{1}{4}$, 400 feet from the north line and 330 feet from the west line of Section 11.

4. Two prior-existing wells are within the proposed project area: (1) The Hudson Federal Well No. 5, located in south half of Unit A (NE $\frac{1}{4}$ NE $\frac{1}{4}$) of Section 11, Township 18 South, Range 31 East, Eddy County, New Mexico, N.M.P.M.; and (2) the Hudson Federal Well No. 3, located in the south half of Unit B (NW $\frac{1}{4}$ NE $\frac{1}{4}$) of Section 11, Township 18 South, Range 31 East, Eddy County, New Mexico, N.M.P.M.

5. The Hudson Federal Well No. 5 is completed in and produces from the First Bone Spring Sand interval, and the Hudson Federal Well No. 3 is completed in and produces from the Second Bone Spring Carbonate interval.

6. In accord with the Division's proposed Horizontal Well Rule, "[i]f a project area includes a spacing unit or smaller project area dedicated to an existing well bore, unless the operators of all wells in the project area otherwise agree, the project area's allowable shall be computed by deducting the actual production from the existing well bore or well bores from the total allowable for the project area." *See* Case No. 14744, proposed rule 19.15.16.14(A)(3).

7. Similarly, the proposed rule provides that "[e]xisting wells in spacing units or project areas that are included in a newly designated project area remain dedicated to their existing spacing units or project areas and are not part of the new project area unless otherwise agreed by all working interest owners in the new project area." *See* Case No. 14744, proposed rule 19.15.16.15(D)(1).

8. Neither prior-existing well is completed within or produces from the production interval targeted by the proposed Tamano 11 Fed. Com. Well No. 1-H. Accordingly, it is unnecessary to subtract any production attributable to the existing wells from the proposed Tamano 11 Fed. Com. Well No. 1-H, and production from each prior-existing well can remain dedicated to its respective spacing and proration unit.

9. Applicant has in good faith sought to obtain the voluntary joinder of all mineral interest owners in the N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 11 for the purposes set forth herein. The interest owners, who have been noticed in accordance with Division rules, are identified on Exhibit A to this application.

10. Although Applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, Applicant seeks an order pooling all mineral interest owners from the base of the Second Bone Spring Carbonate to the base of the Bone Spring formation underlying the N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 11, pursuant to NMSA 1978, Sections 70-2-17 and -18.

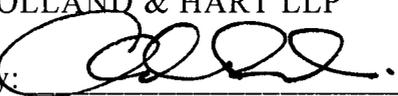
11. Approval of the non-standard unit and the pooling of all mineral interests from the base of the Second Bone Spring Carbonate to the base of the Bone Spring formation underlying the N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 11 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, Applicant requests that this application be set for hearing before an Examiner of the Oil Conservation Division on October 27, 2011, and, after notice and hearing as required by law, the Division enter its order:

- A. Approving a non-standard oil spacing and proration unit (“project area”) in the Bone Spring formation comprised of the N½N½ of Section 11;
- B. Pooling all mineral interests from the base of the Second Bone Spring Carbonate to the base of the Bone Spring formation underlying the N½N½ of Section 11;
- C. Designating Applicant as operator of the unit and the well to be drilled thereon;
- D. Considering the cost of drilling and completing the well, and allocating the cost among the well’s working interest owners and authorizing Mewbourne to recover its costs of drilling, equipping and completing the well;
- E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and
- F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,

HOLLAND & HART LLP

By: 

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**ATTORNEYS FOR
MEWBOURNE OIL COMPANY**

EXHIBIT A

**APPLICATION OF
MEWBOURNE OIL COMPANY
FOR A NON-STANDARD SPACING AND PRORATION UNIT AND
COMPULSORY POOLING
N/2 N/2 OF SECTION 11, TOWNSHIP 18 SOUTH, RANGE 31 EAST, N.M.P.M.
EDDY COUNTY, NEW MEXICO.**

NOTIFICATION LIST FOR POOLING

Yates Energy Corporation
P.O. Box 2323
Roswell, New Mexico 88202

S.W. Crosby III
P.O. Box 2346
Roswell, New Mexico 88202

Jalapeno Corporation
P.O. Box 1608
Albuquerque, New Mexico 87103

Zia Trust, Inc. Trustee of the
Fletcher Revocable Trust
Suite A
4131 Camino Coyote
Las Cruces, New Mexico 88011

Harvey E. Yates Company
Explorers Petroleum Corporation
Spiral, Inc.
P.O. Box 1933
Roswell, New Mexico 88202

VALCO, LLC
P.O. Box 1090
Roswell, New Mexico 88202

EAKO, LLC
P.O. Box 1090
Roswell, New Mexico 88202

Walking X Partnership V
Attn: Jerry Stafford
P.O. Box 175
Whiteface, Texas 79379

NOTIFICATION LIST FOR NON-STANDARD UNIT

Legacy Reserves Operating LP
P.O. Box 10848
Midland, Texas 79702

Endurance Resources LLC
Suite 600
15455 Dallas Parkway
Addison, Texas 75234

Nadel and Gussman HEYCO, LLC
Suite 508
601 North Marienfeld
Midland, Texas 79701

Case No. 14736: Application of Mewbourne Oil Company for a non-standard oil spacing and proration unit and compulsory pooling, Eddy County, New Mexico. Applicant in the above-styled cause seeks an order: (i) approving a 160-acre non-standard oil spacing and proration unit ("project area") in the Bone Spring formation, comprised of the N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 11, Township 18 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, and (ii) pooling all mineral interests from the base of the Second Bone Spring Carbonate to the base of the Bone Spring formation underlying the non-standard oil spacing and proration unit ("project area") for all pools or formations developed on 40-acre spacing within that vertical extent. The units are to be dedicated to the Tamano 11 Fed. Com. Well No. 1-H, a horizontal well with a surface location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$, 400 feet from the north line and 330 feet from the east line, and a bottom-hole location in the NW $\frac{1}{4}$ NW $\frac{1}{4}$, 400 feet from the north line and 330 feet from the westline, of Section 11. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as the actual operating costs and charges for supervision, designation of applicant as operator of the unit and the well, and a 200% charge for the risk involved in drilling and completing the well. The unit is located approximately 9 miles east-southeast of Loco Hills, New Mexico.

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